

Board of Governors of the Federal Reserve System

SEMIANNUAL REPORT TO CONGRESS



OFFICE OF INSPECTOR GENERAL

October 1, 1996 – March 31, 1997



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

OFFICE OF INSPECTOR GENERAL

April 25, 1997

The Honorable Alan Greenspan
Chairman
Board of Governors of the
Federal Reserve System
Washington, D.C. 20551

Dear Chairman Greenspan:

The enclosed semiannual report to Congress summarizes activities of the Board's Office of Inspector General for the six-month period ended March 31, 1997. This report summarizes our published audit work, audit work in process, investigative activities, and legislative and regulatory review activities during the period.

The report should be forwarded to Congress with any comments you may have, along with your separate management report, by the end of May 1997.

Sincerely,

A handwritten signature in black ink, appearing to read "Brent L. Bowen", is positioned below the word "Sincerely,".

Brent L. Bowen
Inspector General

Enclosure

Board of Governors of the Federal Reserve System

SEMIANNUAL REPORT TO CONGRESS



OFFICE OF INSPECTOR GENERAL

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Introduction and Summary

The Office of Inspector General (OIG) for the Board of Governors of the Federal Reserve System (the Board) reports twice yearly to Congress on audits, investigations, legislative and regulatory reviews, and other activities in accordance with the Inspector General Act of 1978 (IG Act), as amended. This report covers the period October 1, 1996, through March 31, 1997.

Since the OIG was established, we have shared our strategic direction, five-year plans, and annual plans with the Board and the Congress to stimulate interest, encourage communication, and encourage program officials to improve their operations before we initiate audits. That approach is embodied in our mission statement:

The overall mission of the Office of Inspector General is to assist the Board in achieving economy, efficiency, and effectiveness and in preventing or detecting fraud, waste, and abuse in its operations and activities.

Each of our semiannual reports presents an overview of planned activities and summarizes activities conducted during the reporting period.

Our *Strategic Plan 1995–1999* specifies three long-range goals:

- ***To focus our resources on issues that pose the greatest risk to and offer the maximum opportunity to add value to the Federal Reserve.***
- ***To improve OIG interaction and coordination within the Federal Reserve System and with others.***
- ***To improve the economy and efficiency of OIG internal operations.***

These goals set the direction for all our activities. The first (with the help of our risk assessment model) helps us determine where to focus, the second helps us emphasize communications to fulfill our leadership and prevention responsibilities, and the third guides us to more efficient operations. We are now evaluating our strategic direction and expect to issue an updated strategic plan during the next reporting period.

Background information on the functions and organization of the Federal Reserve and the OIG are included as appendixes 1 and 2, respectively (pages 17 and 19). Appendixes 3 through 6, specifically required by the IG Act, are referenced in the text. Appendix 7 (page 29) shows the specific reporting requirements prescribed by the IG Act and recommended by the General Accounting Office (GAO).

Audits

Our audit activities, conducted within the Board's four mission areas, cover issues confronting the Federal Reserve, potential risks to the Board, and means by which those risks may be reduced.

In the sections on each mission area that follow, we have listed the issues we have identified for audit attention, the work completed or in process this reporting period, and work planned for the next reporting period. We have also included the results of our audit follow-ups.

In conducting follow-ups, we typically give the program areas up to twelve months to act on our recommendations before we assess their actions. We then issue a formal report to the chairman of the applicable Board oversight committee; the report indicates that corrective actions have been taken, asks for a final decision on recommendations on which program officials disagree, or notifies the committee that we plan to continue to follow up on unresolved recommendations.

During this reporting period, we reviewed open recommendations that were more than one year old for which a follow-up review had been conducted. We closed several recommendations as a result of subsequent audit work and we closed others because new procedures or systems superseded the intent of the recommendations. We also initiated supplemental follow-up reviews to resolve any remaining open recommendations. Summary data on both open and closed

recommendations that we are still tracking are provided in appendix 3 (see page 21).

Economic and Monetary Policy

This mission area addresses the nation's economic and financial goals through such functions as measuring monetary and credit aggregates; analyzing current and past economic indicators; establishing reserve requirements, discount rates, and margin requirements; reporting policy actions; and publishing economic analyses and research results. Our work in this mission area focuses on the following issues:

- Do key automation systems that produce economic and statistical data operate effectively, efficiently, and economically, and do they have effective internal controls?
- Is the Board adequately overseeing discount window operations?
- Is the Board providing adequate support to the Federal Open Market Committee?
- Are the Federal Reserve's research organizations effectively administering their program responsibilities?

We did not perform any audits or follow-ups in this mission area during this reporting period. During the next reporting period, we plan to begin an efficiency and effectiveness audit of the Statistics and Reserve (STAR) system, which generates most of the infor-

mation used in major Federal Reserve statistical releases.

Supervision and Regulation of Financial Institutions

The Federal Reserve is responsible for supervising and regulating state member banks and bank holding companies as well as foreign banks doing business in the United States. Its key activities include keeping abreast of current and prospective developments in the banking structure; performing examinations and inspections of financial institutions; processing applications that involve acquisitions, mergers, and changes in bank control; analyzing and developing proposals to improve banking safety and soundness and consumer credit protection laws; processing consumer complaints; and monitoring community banking affairs. The Board has delegated supervisory activities such as conducting examinations and inspections and processing routine applications to the Federal Reserve Banks. Our work in this mission area focuses on the following issues:

- Does the Board exercise effective oversight of the supervision and regulation function to ensure that policies are consistently interpreted and implemented throughout the System?
- Does the Board effectively and efficiently fulfill its mission to enforce banking disclosure, fair lending, and consumer protection laws?
- Does the Board effectively and efficiently carry out its bank regulatory functions, and does it comply with the Administrative Procedures Act in promulgating regulations?
- Are the Board's examination, surveillance, and enforcement programs efficient and effective in ensuring that the institutions it regulates operate in a safe and sound manner?
- Do the Board divisions responsible for administering this mission area effectively and efficiently use and manage their automated resources?

During this period we issued a report on the failure of Guardian Bank (summarized below) and conducted an initial follow-up on our *Report on the Audit of the Board's Applications Processing* (A9504). This audit report contained six recommendations for improving efficiency and timeliness of applications processing and for minimizing duplication of effort. We concluded that the Board, the Division of Banking Supervision and Regulation, the Legal Division, and the Division of Consumer and Community Affairs have taken action to improve efficiency and timeliness and closed the recommendations. We also completed supplemental follow-up reviews on open recommendations from the following reports:

- *Report on the Failure of Jefferson Bank and Trust* (A9307),
- *Report on the Audit of the Board's HMDA Processing System: Project Management, Internal Controls, and Regulation C Consumer Compliance Examination Procedures* (A9203-A), and
- *Report on the Audit of the Board's HMDA Processing System: System Design, Internal Controls, and Security* (A9203-B).

We have closed all outstanding recommendations associated with these reports except for

two from the first HMDA report (A9203-A) regarding the need to improve workpaper standards and their review. We will monitor the division's progress in addressing these issues.

We also completed fieldwork on our ongoing audit of the Division of Banking Supervision and Regulation's Distributed processing environment and began an audit to evaluate the efficiency of the Federal Reserve's banking supervision enforcement activities. We will summarize these reports in our next semiannual report.

Report on the Failure of Guardian Bank (A9608)

The Federal Deposit Insurance Act requires the Inspector General of the appropriate federal financial institutions to review and report on any failure of an insured institution that results in a material loss to a deposit insurance fund. We conducted a material loss review of the failure of Guardian Bank of Los Angeles, California. At the time of Guardian's closure in January 1995, the Federal Deposit Insurance Corporation (FDIC) estimated that the Bank Insurance Fund would incur an \$8 million loss as a result of the failure. In 1996, this estimate was later revised by the FDIC to exceed the \$25 million materiality threshold. Our inquiry as to why the initial loss estimate more than tripled led the FDIC's Division of Resolution to address changing procedures to avoid omitting non-asset-specific receivership expenses in its initial loss estimates.

Our review found that Guardian failed primarily as a result of inadequate management oversight of an aggressive growth strategy that was funded with volatile and unstable deposits in a declining California economy. We determined that the level of supervisory

actions taken at Guardian were within the range of acceptable actions considering the problems the bank experienced. We also determined that recent changes in the Reserve Bank of San Francisco's staffing, organizational structure, and procedures and improved policy guidance from the Board have strengthened the examination process, and should help examiners identify problems sooner, and perhaps prevent some of the problems that led to Guardian's failure. We will assess the long-term effectiveness of these supervisory changes as we perform additional material loss reviews and as part of our regular audits. The deputy director agreed with our analysis of the problems that led to the material loss.

Oversight of Federal Reserve Bank Activities

The twelve Reserve Banks are separate entities within the Federal Reserve System, each operating under the supervision and control of a board of directors but subject to the general supervision of the Board. The Reserve Banks serve depository institutions by maintaining reserve and clearing accounts and by providing payment services that include collecting checks, electronically transferring funds, and distributing and receiving currency and coin. The Reserve Banks also act as the federal government's fiscal agent and as such perform various activities related to payments processing and government securities. The Board exercises its general supervisory responsibilities through a number of activities, including financial examinations, operations reviews, budget reviews, building and information technology oversight programs, accounting and financial reporting standards setting, and annual performance evaluations. Our work in this mission area focuses on the following issues:

- Are the Board's general oversight processes effective and efficient, and do adequate controls exist to minimize risk to the Federal Reserve?
- Are the Federal Reserve's pricing and policy formulation processes effective, efficient, well controlled, and in compliance with applicable laws, regulations, policies, and procedures?
- Does the Board carry out its Reserve Bank operational duties in an effective and efficient manner, and do associated processes comply with applicable laws and regulations?

During this period we issued a report on the Board's oversight of the Reserve Bank's procurement process (A9603) and conducted an initial follow-up of our *Report on the Audit of Board Oversight of Federal Reserve Automation Consolidation* (A9405) and a supplemental follow-up of our *Report of the Board's Currency Program* (A9210). We closed two of the three recommendations from the automation consolidation report and the remaining recommendation from the currency report.

We joined with the U. S. Department of the Treasury's Office of Inspector General in a scoping effort to determine whether there are lessons to be learned from the rollout of the new \$100 bill that can be applied to the rollout of bills of other denominations and if any other issues associated with the design, printing, distribution, circulation, and replenishment of United States currency would benefit from a joint audit. We also began our scoping effort for an audit of the Federal Reserve Systems' cost accounting and revenue reporting systems. We will report on our progress in these efforts in our next semiannual report.

Report on the Audit of Board Oversight of Reserve Bank Procurement (A9603)

Carrying out the missions of the Federal Reserve requires the twelve Federal Reserve Banks to acquire numerous goods and services. In 1994 and 1995, the Reserve Banks spent about \$456 million and about \$545 million on purchases, nearly 21 percent and 24 percent of their total annual expenses, respectively. We performed our audit to evaluate the efficiency and effectiveness of the Board's oversight of Reserve Bank procurement. Specifically, we evaluated the adequacy of written guidance that the Board provides for Reserve Bank procurement, the effectiveness of the Board's financial examination program for monitoring compliance with policy and procedural requirements, and the usefulness of required reporting for monitoring and supervising Reserve Bank procurement activities. We found that the Board's procurement policy and guidelines are reasonably comprehensive for the building acquisitions specifically approved by the Board and that the Board ensures compliance through its review and approval processes. Procurement policies and guidelines for large automation equipment acquisitions are also reasonably comprehensive through the contract award phase, and the Reserve Banks generally comply with established reporting requirements. Our identification of areas that need improvement led to recommendations that the Board clarify its procurement policies, ensure that its procurement policies are comprehensive and up to date, and change its approach to periodic, comprehensive evaluations of the Reserve Banks' procurement processes. Board management agreed with the intent of our recommendations and plans actions to address them. We will follow up on their implementation next year.

Federal Reserve Board Administrative Operations

This mission area encompasses the Board's operational infrastructure. Our work in this mission area focuses on the following issues:

- Is the Board's financial information presented in accordance with established or stated criteria, and does it provide a consistent, comparable, and reliable basis for decision making? Is the structure of internal control over financial reporting and asset safeguarding suitably designed and implemented to achieve control objectives?
- Do the Board's administrative services meet customers' needs in an efficient manner, with appropriate attention to management controls?
- Is the Board adequately prepared for events that could disrupt business operations, and are physical, information and automation security adequate?
- Do the Board's various computing environments contain adequate safeguards to ensure the integrity of the Board's business operations?

During this reporting period we issued a report on the Board's administrative systems automation project, contracted with a public accounting firm to perform an annual audit of the Board's and the Federal Financial Institutions Examination Council's year-end financial statements, and responded to an inquiry regarding delays in depositing check payments for Board publications. The results of the audits are summarized below. Our supplemental follow-up on six open recommendations from our 1992 *Report on the Audit of the Board's Mechanical Inventory Controls* (A9209) found sufficient man-

agement action to close them. During this reporting period we began two business process reviews, one of the Board's travel administration process and another of the policies and procedures for fixed asset accounting. We will report on these reviews during the next reporting period.

Report on the Audit of the Administrative Systems Automation Project (A9609)

The Administrative Systems Automation Project (ASAP) is a multiyear effort to replace the Board's financial, human resource, and other administrative management systems with (primarily) commercial off-the-shelf software designed to run in a distributed processing environment. From the project's inception in 1992 through 1996, the Board will have spent about \$5 million on ASAP acquisition, development, implementation, operations, and maintenance; projections are that the Board will spend an additional \$2.7 million on the system through the end of 1998, the projected final year of the development effort.

We performed this audit to (1) document the project status as of July 31, 1996, and assess the reasonableness of future project direction, and (2) assess the efficiency and effectiveness of ASAP implementation at the strategic and project management levels. Our audit was designed to develop a "snapshot" of the ASAP project, identifying the milestones that have been achieved, the project costs to date, and the current ASAP configuration in terms of functionality, hardware, and software.

We believe that over the life of the project the ASAP team has overcome numerous obstacles and has made strides toward achieving the project's stated objective of meeting the Board's current and future ad-

ministrative information requirements. We are concerned, however, that the team may not be able to achieve its remaining strategic objectives efficiently and effectively. Our report contains seven recommendations aimed at helping the project to attain its short-term goal of implementing the initial suite of human resource applications on June 30, 1997, and to facilitate the remaining development and implementation efforts once the core human resource applications go into production. Board management generally agreed with our recommendations and is taking, or plans to take, actions to carry them out.

Report on the Audit of the Board's Financial Statements (Years-Ended December 31, 1996, and December 31, 1995)

and

Report on the Audit of the Federal Financial Institutions Examination Council's (FFIEC) Financial Statements (Years-Ended December 31, 1996, and December 31, 1995)

We contract with an independent public accounting firm to perform the annual audits of the Board's and FFIEC's financial statements (the Board performs the accounting functions for the FFIEC). Our external auditors planned and performed the audits to obtain reasonable assurance that the financial statements were free of material misstatement. Their audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, and evaluating the overall financial statement presentations. In their opinion, both the Board's and FFIEC's financial statements present fairly, in all material respects, the financial position of each organi-

zation as of December 31, 1996, and December 31, 1995, and the results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles. Also, the accounting firm concluded that the Board and FFIEC, with respect to the items tested, complied in all material respects with all applicable laws and regulations. They noted no matter involving internal control structures or operations that they considered a material weakness.

Letter Report on Inquiry Regarding Delays in Depositing Check Payments for Board Publications (P9718)

In February 1997, we received a letter from a Board publications subscriber expressing concern about the amount of time the Board took to deposit his check payments. In our focused inquiry into this matter, we identified and recommended ways to simplify and improve the check processing flow that would increase deposit timeliness, reduce administrative expenses, and improve financial accounting procedures. Our recommendations were well received by officials and managers involved in the process and were being implemented by the time we summarized the results of our inquiry to the cognizant officials.

Investigations

Our investigators continued to address allegations of wrongdoing related to the Board's programs and operations as well as violations of the Board's standards of conduct.

The investigative function covers the full range of investigative requirements from both reactive and proactive directions. Specifically, our approach includes

- reaction to possible wrongdoing identified by others through the OIG hotline and otherwise;
- reaction to possible wrongdoing through referrals from auditors; other Board program functions; Congress; and other federal, state, and local audit or law enforcement agencies;
- attention to prevention and detection activities that both foster an environment inimical to wrongdoing and encourage close coordination with audits on risk and vulnerability surveys.

Our hotline operation is available to those who want to report wrongdoing in the Board's programs and operations (including delegated functions). The local and toll-free hotline numbers and the OIG hotline address are published in the Board's telephone directory, in an interagency hotline network publication sponsored by the President's Council on Integrity and Efficiency (PCIE), in the *Congressional Record*, in the local telephone directory, and in the telephone directories of each of the Federal Reserve Banks and Branches and their respective local telephone directories. The hotline numbers are also

published in selected documents, correspondence, and reports produced by the Board and the OIG and are often publicized by a television financial network.

The OIG reacts to referrals from within the Board and outside sources and makes referrals to other law enforcement organizations as appropriate. The OIG's prevention and detection strategy is designed to identify causes of fraud and abuse, provide a mechanism for the early detection of fraud and abuse to minimize any potential damage and/or loss and to help the Board resolve such problems and prevent their recurrence.

Hotline Results

During this reporting period, the investigative unit resolved 233 telephone complaints to the OIG nationwide toll-free hotline and numerous written complaints. Most callers were consumers with complaints or questions about policies of private financial institutions in such areas as funds availability, bond checks, loan collateral, loan overcharges, stock transactions, and bank fees. Other callers contacted us seeking advice about various programs and operations of the Board, Federal Reserve Banks, and other financial regulatory agencies. The investigative staff directed these inquiries to the appropriate Board office or Federal Reserve Bank or federal or state agency responsible for addressing such concerns.

Investigative Results

We continued work on ten cases from previous periods and by the end of this period had closed one case, leaving a total of nine cases still active. (see appendix 6, page 27). None of the complaints or cases handled during this period required us to make any criminal or administrative referrals.

Legislative and Regulatory Review

We reviewed existing and proposed legislative and regulatory items both as part of our routine activities and on an ad hoc basis. We usually review existing laws, regulations, and policies and procedures that affect the Board as part of scheduled audits and investigations of program and operations areas; as the need arises, we also evaluate those not scheduled for review. When evaluating new or proposed laws, we identify appropriate legislation for review using the list of pending federal legislation prepared by the Board's Law Library, and we coordinate with other Board programs that also review new and proposed legislation. We then independently analyze the effect that the new or proposed legislation may have on the efficiency and effectiveness of Board programs and operations. When reviewing new or proposed regulations or policies, we monitor program contributions to the proposals to ensure that programs are fulfilling their legally mandated responsibilities. We then conduct our own analysis of proposed regulations to assess their possible administrative effects and the risk of fraud, waste, and abuse under them.

Activity during the Reporting Period

In this reporting period, we assisted with audits and investigations by commenting on statutory and regulatory compliance issues during the planning phases and addressing legal issues during the fieldwork and report preparation phases. We reviewed in detail all bills introduced in the current Congress that would affect the Federal Reserve System or the OIG. We reviewed several Board regulations and policies in both their proposed and final forms. Legislative, statutory, and regulatory reviews that concentrate on economy and efficiency concerns are continuing in connection with specific audits and inquiries.

These reviews covered portions of the Federal Reserve Act, the enforcement provisions of the Federal Deposit Insurance Act, the Bank Holding Company Act, federal travel regulations, various government contracting acts, and the federal information resources acts and the regulations that implement those acts. The reviews also cover pending legislation that, by amending those acts, would affect the burdens that the acts place on regulated entities and would alter the effects that they have on the public.

Appendixes

Appendix 1

The Federal Reserve System

Congress established the Federal Reserve System (System) as the nation's central bank in 1913. The System consists of a seven-member Board of Governors (Board) and staff in Washington, D.C., plus a nationwide network of twelve Federal Reserve Banks and twenty-five Branches, the Federal Open Market Committee, and three advisory groups—the Federal Advisory Council, the Consumer Advisory Council, and the Thrift Institutions Advisory Council. The Board employs about 1,750 staff members, and the Reserve Banks and Branches employ about 23,250 staff members.

Members of the Board are appointed by the President and confirmed by the Senate to serve fourteen-year, staggered terms to help insulate their decisions from day-to-day political pressure. The Chairman and Vice Chairman each serve four-year terms.

The major source of Federal Reserve income is earnings on the portfolio of U.S. government securities used to implement monetary policy. In 1996, the Federal Reserve returned an estimated \$20.1 billion to the U.S. Treasury as earnings in excess of expenses, dividends, and additions to Reserve Bank capital and surplus accounts. These earnings are deemed to be interest on Federal Reserve notes and are treated as receipts to the federal budget. The Board reports to Congress through an annual report on the Board's operations and through semiannual reports on the state of the economy and the course of monetary policy.

Appendix 2

Office of Inspector General

The Board established the Office of Inspector General (OIG) in July 1987, in accordance with the provisions of the Inspector General Act of 1978. Minor changes were made to the originating charter to bring the OIG in line with the Inspector General Act Amendments of 1988. The Inspector General has the authority to address all matters that fall under the Board's jurisdiction.

It is the duty and responsibility of the OIG to

- Provide policy direction for, and conduct, supervise, and coordinate audits, operations reviews, and investigations relating to, the Board's programs and operations.
- Review existing and proposed laws and regulations relating to the Board's programs and operations and make recommendations concerning the effects of these laws and regulations on the economy and efficiency in, and the prevention and detection of fraud and abuse in, the administration of the Board's programs and operations as well as in those administered or financed by the Board.
- Recommend policies for, and conduct, supervise, or coordinate other activities carried out or financed by, the Board for the purpose of promoting economy and efficiency in the administration of the Board's programs and operations and preventing

and detecting fraud and abuse in those programs and operations.

- Recommend policies for, and conduct, supervise, or coordinate relationships between, the Board and other federal agencies, state and local governmental agencies, and nongovernmental agencies with respect to all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by the Board or the identification and prosecution of participants in any such fraud or abuse.
- Keep the Chairman and Congress fully informed by means of semianual and other reports concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by the Board, recommend corrective actions concerning such problems, abuses, and deficiencies, and report on the progress made in implementing corrective actions.

Notwithstanding the authorities and jurisdictions summarized above, the Inspector General Act, as amended, provides that the Inspector General shall be under the authority, direction, and control of the Chairman with respect to audits or investigations, or

the issuance of subpoenas, that require access to sensitive information regarding

- deliberations and decisions on policy matters, including documented information used as a basis for making policy decisions the disclosure of which could reasonably be expected to have significant influence on the economy or market behavior, or
- other matters the disclosure of which would constitute a serious threat to national security or the protection of any person or property under protection programs.

The Chairman can prohibit the Inspector General from carrying out or completing an audit or investigation, or from issuing a subpoena, if the Chairman determines that the prohibition is necessary to prevent the disclosure of certain sensitive information.

The Inspector General Act requires that the Chairman notify the Inspector General in writing of the reasons for the prohibition, and the Inspector General must transmit this notice within thirty days to designated congressional committees.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (Public Law 102-242) amended section 38(k) of the Federal Deposit Insurance Act and made it the responsibility of the Inspector General to review the Federal Reserve's supervision of failed state member banks that cause a material loss to the Bank Insurance Fund.

Because the Federal Reserve has supervisory jurisdiction over bank holding companies, the Board's Inspector General reviews the Federal Reserve's supervision of bank holding companies and affiliate bank holding companies that contribute to any material loss to a depository institution regulated by any federal regulator.

OIG work generally falls into three main categories—audit, investigations, and legislative and regulatory review. To accomplish this work, the OIG currently operates with a staff authorization of thirty-two plus the assistance of contract auditors and experts.

Appendix 3

OIG Audit Reports and Recommendations

		Recommendations				Status of Recommendations ¹		
Report No.	Audits Currently Being Tracked	Issue Date	No.	Mgmt. Agrees	Mgmt. Dis-agrees	Follow-up Completion Date	Closed	Open
Monetary and Economic Policy								
None currently being tracked.								
Supervision and Regulation of Financial Institutions								
A9307	Report on the Failure of Jefferson Bank & Trust	12/93	4	3	1	11/96 ²	4	0
A9203-A	Audit of HMDA Processing System: Project Management	02/94	13	8	5	11/96 ²	11	2
A9203-B	Audit of HMDA Processing System: System Design	03/94	14	9	5	11/96 ²	14	0
A9504	Audit of the Board's Application Processing	11/95	6	6	0	01/97	6	0
A9508	Audit of the Board's Consumer Compliance Examination Process	04/96	14	11	3			
A9604	Audit of the Bank Holding Company Inspection Program	08/96	10	10	0			
A9608	Report on the Failure of Guardian Bank	10/96	0	--	--			

¹ A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the Board is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred it to the appropriate oversight committee or administrator for a final decision.

² Supplemental follow-up work completed during this reporting period resulted in our closing these recommendations.

Report No.	Audits Currently Being Tracked	Issue Date	Recommendations			Status of Recommendations ¹		
			No.	Mgmt. Agrees	Mgmt. Dis- agrees	Follow-up Completion Date	Closed	Open

Oversight of Federal Reserve Bank Activities

A9107	Audit of the Board's Financial Examination Program	09/93	18	16	2	09/95	12	6
A9210	Audit of the Board's Currency Program	09/94	2	2	0	11/96 ²	2	0
A9405	Audit of the Board Oversight of Federal Reserve Automation Consolidation	02/96	3	3	0	03/97	2	1
A9603	Audit of Reserve Bank Procurement	12/96	3	3	0			

Federal Reserve Board Administrative Operations

A9209	Audit of the Board's Mechanical Inventory Controls	11/93	15	15	0	11/96 ²	15	0.00
A9408	Audit of the Office of the Secretary's Record Services' Image Processing System	03/95	6	6	0			
A9505	Audit of the Division of Information Resources Management's Change Control Process	02/96	4	2	2			
A9606	Audit of the Division of Information Resources Management's Operating System (MVS) and Access Control Software (CA-ACF2)	07/96	2	0	2			
A9609	Audit of the Administrative Systems Automation Project (ASAP)	02/97	7	7	0			
A9700	Audit of the Board's Financial Statements	03/97	0	--	--			
A9701	Audit of the FFIEC Financial Statements	03/97	0	--	--			

¹ A recommendation is closed if (1) the corrective action has been taken; (2) the recommendation is no longer applicable; or (3) the appropriate oversight committee or administrator has determined, after reviewing the position of the OIG and division management, that no further action by the Board is warranted. A recommendation is open if (1) division management agrees with the recommendation and is in the process of taking corrective action or (2) division management disagrees with the recommendation and we have referred it to the appropriate oversight committee or administrator for a final decision.

² Supplemental follow-up work completed during this reporting period resulted in our closing these recommendations.

Appendix 4

Audit Reports Issued with Questioned Costs for the Period October 1, 1996, through March 31, 1997

Reports	Number	Dollar Value	
		Questioned Costs	Unsupported Costs
For which no management decision had been made by the commencement of the reporting period	0	\$0	\$0
That were issued during the reporting period	0	\$0	\$0
For which a management decision was made during the reporting period	0	\$0	\$0
(i) dollar value of disallowed costs	—	—	—
(ii) dollar value of costs not disallowed	0	\$0	—
For which no management decision had been made by the end of the reporting period	0	\$0	\$0
For which no management decision was made within six months of issuance	0	\$0	\$0

Appendix 5

Audit Reports Issued with Recommendations That Funds Be Put to Better Use for the Period October 1, 1996, through March 31, 1997

Reports	Number	Dollar Value
For which no management decision had been made by the commencement of the reporting period	0	\$0
That were issued during the reporting period	0	\$0
For which a management decision was made during the reporting period	0	\$0
(i) dollar value of recommendations that were agreed to by management	—	—
(ii) dollar value of recommendations that were not agreed to by management	—	—
For which no management decision had been made by the end of the reporting period	0	\$0
For which no management decision was made within six months of issuance	0	\$0

Appendix 6

Summary Statistics on Investigations for the Period October 1, 1996, through March 31, 1997

Investigative Actions	Number
Hotline	
Complaints received (calls, letters, or other contacts)	233
Complaints closed	233
Referrals for investigation	
Hotline referrals	0
Audit referrals	0
Referrals from other Board offices	0
Referrals from other sources	0
Proactive efforts by OIG	
Investigations developed by OIG	0
Total of hotline complaints, referrals, and proactive efforts received during reporting period	233
Investigative caseload	
Investigations opened during reporting period	0
Investigations open from previous periods	10
Investigations closed during reporting period	1
Total investigations active at end of reporting period	9

Appendix 7

Cross-References to the Inspector General Act

Indexed below are the reporting requirements prescribed by the Inspector General Act of 1978, as amended, for the reporting period:

<u>Section</u>	<u>Source</u>	<u>Page</u>
4(a)(2)	Review of Legislation and Regulations	13
5(a)(1)	Significant Problems, Abuses, and Deficiencies	11
5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	None
5(a)(3)	Significant Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	None
5(a)(4)	Matters Referred to Prosecutory Authorities	None
5(a)(5)	Summary of Instances Where Information Was Refused	None
5(a)(6)	List of Audit Reports	21
5(a)(7)	Summary of Significant Reports	None
5(a)(8)	Statistical Table—Questioned Costs	23
5(a)(9)	Statistical Table—Recommendations That Funds Be Put to Better Use	25
5(a)(10)	Summary of Audit Reports Issued Before the Commencement of the Reporting Period for Which No Management Decision Has Been Made	None
5(a)(11)	Significant Revised Management Decisions Made During the Reporting Period	None
5(a)(12)	Significant Management Decisions with Which the Inspector General Is in Disagreement	None

You Can Help



1-202-452-6400

1-800-827-3340

Report: Fraud, Waste or Mismanagement

- **Information Is Confidential**
- **Caller Can Remain Anonymous**

**You can also write the Office of Inspector General,
HOTLINE, Mail Stop 300, Board of Governors of the Federal
Reserve System, 20th & Constitution Avenue, N.W.,
Washington, DC 20551.**